TANDEM WEALTH MANAGEMENT

July 2022

Inflation Advantages for Emergency Savings

With inflation hitting 40-year highs, Series I Savings Bonds have come back in favor. Inflation creates an opportunity for these bonds since they earn interest based on a fixed rate plus an inflation rate. The current fixed rate remains 0%, but the inflation rate is 9.62%, making the current combined rate 9.62% through October. The rate compounds semiannually, and the inflation rate changes every six months, in November and May. Although we hope inflation will begin to decrease, it will take time before it reaches the Fed's target of 2.8% to 3%. Therefore, taking advantage of this rate while inflation remains higher makes financial sense for a portion of your emergency savings.

I Bonds are required to be held for at least 12 months. It is important to note that there are very few exceptions to redeeming a bond before 12 months, so I recommend keeping enough cash in your savings account to cover unexpected expenses for one year. After 12 months and before five years, the penalty is only three months of the accrued interest. The calculator used to determine your bond's redemption value will automatically reflect the penalty for a bond owned for less than five years. The interest the bond receives is taxed as ordinary income on the federal level and is not subject to state or local income tax. There is an option to report the interest on your tax return each year, but you can choose to report the interest when the bond is redeemed.

When inflation begins to fall, I recommend comparing the I Bond inflation rate to the current interest rate offered by Certificates of Deposit (CD). Eventually, you may find that CDs offer more competitive rates. Even though an I Bond continues to earn interest for 30 years, with a 0% fixed rate, the only potential interest will be based on the inflation rate. During deflation, the inflation rate can become negative when prices go down, but the combined rate cannot fall below 0%.

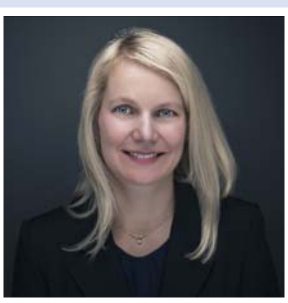
There is a calendar year limit of $10,000 for the purchase of I Bonds, and they can be purchased by visiting the website at https://www.treasurydirect.gov. A less frequently used option is to purchase paper bonds of up to $5,000 using your federal income tax refund.

Although interest rates are increasing quickly for borrowers, we have yet to see a significant rise in the savings rate being offered, with the exception of I Bonds.

Please feel free to reach out with any questions.

Kind regards,

Meghan



Meghan Phillips Dykstra CFP®
Investment Advisor Representative
900 East Front Street, Suite 200
Traverse City, MI 49686
phone: 231-486-6188
fax: 231-486-6191
Meghan.dykstra@TandemWealthTC.com
TandemWealthTC.com

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